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Determining the Effect of Microfinance on Small Scale Enterprises: The Case of Hohoe Municipality of Ghana

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Abstract
The fundamental objective of this study is to assess the impact of Microfinance on Small Scale Enterprises (SSEs) in Hohoe. Simple Random Sampling technique was employed in selecting the 80 SSEs that constituted the sample size for the study. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentages, graphical charts and illustrations were applied in data presentations and analysis. The findings of this study reveal that significant number of the SSEs benefitted from the MFIs loans even though only few of them were capable to secure the required amount needed. Interestingly, majority of the SSEs acknowledge positive contributions of MFIs loans towards promoting their market share. The study recommends that management of microfinance institutions should incorporate SSE's views or inputs into the formulation or review of their credit management policies. The microfinance institutions may consider embarking on monitoring the SSEs to ensure that the loans are being used for its intended purpose.
Keywords: Microfinance, SSEs, Hohoe, credit lending, financial growth

1.1 Introduction

The major challenge facing many developing countries, is devising appropriate development strategies for the Small Scale Enterprises (SSEs) sector. It is a sector of business that one can easily engage into with fewer formalities and less capital. About only 5-6 percent of the population is reported to have access to formal banking facilities (Ahiabor, 2013); (Basu, Blavy, & Yulek, 2004). SSEs in Ghana mostly have limited access to credit facilities, deposits and other financial services provided by formal financial institutions such as commercial banks because according to they view small enterprises as having no asset-based collateral, not credit worthy and unreliable borrowers prone to default payment. As a result, SSEs turn to secure loans from microfinance institutions (Ahiabor, 2013). Quansah, Amankwah, and Aikins (2012) found out that Micro Finance Schemes (MFS) are instrumental in transforming lives of the poor, especially, the '*economically active poor'* (Robinson, 2001) who are engaged in small-scale business operations.

The past twenty years in microfinance have seen significant strides in understanding and providing financial services to advance development and reduce poverty. This includes deposit mobilization mechanisms, accessibility to credit, and advisory services to small business start-ups with the potential to enhance community development, as well as local and national policy making. When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor can lift themselves from poverty. Majority of the world's population is poor; they earn their livelihoods by being self-employed or by working in microenterprises which may employ up to five people - International Labour Organization (ILO)-Empretech (2014) enterprise taxonomies. These micro-entrepreneurs are involved in a wide range of activities which include: Food sellers in markets, health and sanitation workers, domestic workers, repairers of mechanical or electronic equipment, graphic designers, hairdressers/barbers and private security personnel in the **Services sector**; Masons, carpenters, steel-benders, and house-wiring electricians in the **Construction sector**; Food and wood processing, metal works, and textiles and garments in the **Manufacturing sector** (Osei-Boateng & Ampratwum, 2011).

Microfinance has emerged as a growing industry to provide financial services to small scale enterprises. Until recently, the phenomenon focused primarily on providing microcredit (small loans) to the poor. Now, however, there is recognition that poor people need a variety of financial services and not just credit. As a result, current microfinance has made a paradigm shift from subsidized microfinance projects supported by the donor community and governments which ended up serving few people, to the development of sustainable financial institutions specialized in providing financial services, including credit, savings and insurance, to poor enterprises and households in the low-income market (Devereux, 2001).

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wang, 2013). Small-scale businesses are a driving force for economic growth, job creation, and poverty reduction in developing countries. Although microfinance institutions have proved relatively successful in meeting the credit needs of small-scale enterprises in some countries, their limited resources constraints the extent to which they can effectively and sustainably satisfy the credit needs of these entrepreneurs (Nappon & Huddlestone, 1993). Accordingly, in Ghana, various efforts have been made by the government to address the institutional, financial and technological needs of this sector. Some of the measures taken in this direction are the revision of the investment code, adoption of trade liberalization policy, restructuring of the financial sector and the upgrading of traditional technologies. One example of such effort was the establishment of the National Board for Small Scale Industries (NBSSI) in 1981 by Act 434 - a body with a specific policy objective to promote the growth and development of small scale enterprises. Access to finance remains a dominant constraint to SSEs in Ghana and there have been credit constraints pertaining to particularly, working capital and raw materials purchases. Globally, microfinance has proven to be a powerful tool that meets this need even though the aim of MFIs at helping SSEs to expand their business to becoming viable ones appear to be ineffective. In Ghana, the question of whether MFIs activities contribute to the development of SSEs is skeptical and this research seeks to investigate: The contribution of microfinance in improving the financial growth of SSEs in Hohoe Municipality of Ghana and also find out the challenges faced by SSEs in accessing the credit facilities from MFIs in the Municipality.

2.0 Literature Review

Microfinance, according to Copestake, Bhalotra, and Johnson (2001) is the provision of financial services to low-income poor and very poor self-employed people. These financial services, according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Schreiner and Colombet (2001) define microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

2.1 Theoretical Framework

The theoretical foundation for research into the impact of microfinance on small scale enterprises in developing countries is traceable to the Entrepreneurship Theory of Eckhardt and Shane (2003). The theory consists of opportunity discovery, evaluation of the opportunity and the decision to exploit the opportunity. Other elements of the theory include self-employment, business operation and performance evaluation. This research investigates the opportunity available to small scale enterprises, through microfinance institutions. Evaluation of the opportunity refers to the assessment of the challenges faced by the small scale enterprises in order to discover and exploit the opportunity. Kim et al. (2007) adds that microcredit presents the poor with income, food and can therefore have immediate and long term consequences. Asiama and Osei (2007) have also noted that this is possible because microfinance helps the poor to meet their basic need and improve household income. Werhane, Kelley, Hartman, and Moberg (2009) however caution that microfinance may not be appropriate in every situation and advised against a one-size-fits-all strategy in the use of microfinance in poverty alleviation. He explains that poor government structure and dispersed populations in the rural areas might limit the potential benefits of microfinance to these SSEs.

2.2 Microfinance Products and SSEs Growth

According to Wakaba (2014), MFIs can offer their clients who are mostly below or slightly above the poverty line a variety of products and services. The services can be categorized into four broad areas:

- Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems which do not require on-going subsidies.
- Social intermediation which is the process of building human and social capital such as group solidarity, leadership and community development that are needed in sustainable financial intermediation for the poor. Social intermediation may require subsidies.
- Enterprise development services or non-financial services that assist micro entrepreneurs and include skills development, business training, marketing and technology services, and sub sector analysis. This may or may not require subsidies depending on the ability and willingness of the clients to pay for them.
- Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services require on-going subsidies and are always provided by donor supporting NGOs or the state.

The most prominent of the above services offered to small informal businesses by MFIs is financial services as they perceive the others as unprofitable investments. Even with financial service delivery like loans, MFIs face the problems of asymmetric information leading to adverse selection of clients as well as moral hazard explained simply by KAWOR (2010) as '*opportunistic behavior by clients'*.

2.3 The relationship between MFIs and SSEs

SSEs in Ghana continue to contribute significantly to economic development especially in the areas of employment creation, income generation and diffusion of intermediate technology. Those especially in rural areas like Hohoe are challenged by access to finance which is the major impediment to their development (Lawson, Berry, Milligan, & Yates, 2009). Indeed, the approach for ensuring sustainable development of SSEs in Ghana is a remiss unless there is interplay of institutional and industry efforts, regulations, capacity building and political will to strengthen the activities of SSEs on one hand and regulate MFIs on the other. Indeed, building financially sustainable institutions is not an end in itself. It is one way to reach significant SSEs development especially in rural areas. This coexistence should be based on the understanding that:

2.3.1 SSEs need a variety of financial services, not just loans

SSEs need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, SSEs need not only credit, but also savings, cash transfers, and insurance to help rural enterprise owners out of poverty in a sustainable fashion (Kizito, 2012). Access to sustainable financial services enables SSEs to increase incomes, build assets and reduce their vulnerability to external shocks (Miine, 2014). Microfinance allows small business owners to move from everyday survival to planning for the future, expanding and investing in other businesses, and seeking improved living conditions in their children's health and education. Most SSEs, especially rural ones are not able to easily access financial services because of the lack of strong retail financial intermediaries.

2.4 Microfinance and its impact in development

Studies have shown that microfinance plays three key roles in development (UNCDF, 2004). It helps very poor households meet basic needs and protects against risks; it is associated with improvements in household economic welfare and it helps to empower women by supporting women's economic participation and so promotes gender equity. Simanowitz and Brody (2004) state that microfinance is a key strategy in reaching the Millennium Development Goals (MDGs) and in building global financial systems that meet the needs of the poorest. Littlefield, Morduch, and Hashemi (2003) also put forward that microfinance is a critical contextual factor with strong impact on the achievements of the MDGs. It can deliver social benefits on an ongoing, permanent basis and on a large scale. However, it is commonly argued that MFIs are not reaching the poorest in society.

2.5 The debate about MFIs and development

Simanowitz and Brody (2004) argue that microfinance is a compromise between social mission and commercial mission and that currently, as there is more emphasis on financial and institutional performance, there should be opportunities for maximizing poverty impact and depth of outreach. They have called for a balancing of social and financial/commercial objectives because the current focus on financial objectives means that fewer of those most in need of microfinance services are being targeted. They note that it is now time to innovate and design services that maintain high standards of financial performance, but which set new standards in poverty impact. In this study we have reviewed the evolution of microfinance and SSEs development over the past years. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood. One such tool recommended for measuring wider impact is a livelihood security analysis.

3.0 Data and Methodology

This research is descriptive in nature and employs the survey method. Questionnaires were used in our data collection and the purpose was to generate data on whether microfinance made any contribution to the financial growth of SSEs in the Hohoe Municipality of Ghana. Analyses were on the beneficiaries of funds which were specifically SSEs. In order to effectively conduct a valid analysis of the data collected from the research field, we used descriptive statistics such as percentages in frequency distribution tables and then charts to depict the data and for presentation.

3.1 Population of the Study

The universal population considered was microfinance stakeholders in Hohoe Township. Two different target populations were used for the study. One group was the vehicles of microfinance delivery which include: Universe Co-operative Credit Union, Dalex Financial and Leasing Company, Dwadifo Savings and Loans, Amenuveve Money Lending Enterprise, TSS Savings and Loans, Sinapi Aba Trust Savings and Loans and Africa Finance Business. All of them were served with questionnaire even though only 20 which represent 75% were retrieved. The other groups were SSE clients/customers of the above microfinance institutions.

3.2 Sample Size Determination

Stratified sampling technique was used to select a sampling frame from the microfinance clients. The sample size was determined using the formula:

Sample Size (b) = (0.5 x (1-0.5)) / ((0.05/1.96)Squared) Sample Size = 0.25 / ((0.02551…) Squared) Sample Size = 0.25 / 0.00065077…Sample Size = 384.16.

Tb = b… x B/b…..B -1
True Sample (Tb) = 384.16… x 100 / 384.16… + 100 – 1 Tb = 38416… /483.16 Tb = 80
Source: www.fluidsurvey.com
Where **b** is the sample size; **B** is the sampling frame (100); **Tb** is the true sample **α** is the confidence level (at 95% which is convenient in reducing the possibility of non-response considerably). Simple Random Sampling technique was employed to select the 80 SSE operators that were microfinance clients in Hohoe Township. The decision for this sample size also took into account the fact that respondents were beneficiaries of two or more microfinance institutions.

3.3 Sampling Techniques
The researchers adopted probability sampling which allowed them to take the information obtained from the representative sample (the SSEs unit of analysis) and generalize it to the entire population. The number of respondents selected was representative given the fact that the respondents contributed and borrowed from the microfinance institutions simultaneously at a time. The conclusion and recommendations of this study generated from the data that was derived from the sample.

3.4 Data Analysis
The primary data collected was quantitatively transformed using the Statistical Package for Social Scientists (SPSS). Frequency distribution tables were used to organize and summarize the SPSS generated data in Microsoft Excel. Descriptive statistics like percentages were used to describe the basic features of the data as well as ascertaining the level of agreement or disagreement with the statements in the questionnaire.

4.0 Empirical Results
This section presents the analyses of the responses obtained from the SSE managers on how microfinance has assisted to improve the financial growth of their enterprises. The first is demographic factors which include; age, gender and educational background of SSEs' owners. The second comprise of business information on SSEs' growth, and finally findings.

Table 4.1 Age Distribution of SSE Managers.

Age	Frequency	Percentage (%)
18-25	27	34
26-35	9.5	12
36-45	16	20
46-55	19.5	24
56+	8	20
Total	**80**	**100**

Source: *Field Survey (2015)*

Researchers wanted to find out the ratio of age distribution of SSEs owners in the study. The result produced shows that 34 percent of the SSEs owners were in the age group of 18-25; 12 percent in 26-35; 20 percent in 36-45; 24 percent in 46-55; and 20 percent were 56 and above. This is an indication that majority of the youth form the largest in this sector and that explains how important the sector is in terms of its contribution towards the socio-economic development of the Hohoe municipality. Information was elicited to know the educational background of the respondents to help understand how that could influence the application of credit leading to financial growth of SSEs in the area.

Table 4. 2 Educational Background of SSE Managers.

Educational background	Frequency	Percentage (%)
Non formal education	6	7.5
J H S/ M S L C	18	22.5
SHS/ VOC/TECHNICAL	25	31.25
Tertiary	31	38.75
Total	**80**	**100**

Source: *Field Survey (2015)*

Analysis from table 4.2 shows that 38.75 percent respondents had obtained Tertiary education, 31.25 percent has Senior High School education/ Vocational/Technical, 22.5 percent Junior High Senior and 7.5 percent had non-formal education. Generally, it means that, 92.5 percent of the respondents have had formal education and for that matter could read and write. However, the 7.5 percent respondents who could neither read nor write may be lacking basic knowledge concerning Micro financing. We also developed interest in knowing the age of SSEs. It helps the researchers to understand whether most businesses are start-ups, growing, or matured firms in their application of credit.

Table 4.3 Period of SSEs in Business

Period	Frequency	Percentage (%)
0-2	32	40
3-8	21	26.25
9-14	9	11.25
15 +	18	22.5
Total	**80**	**100**

Source: *Field Survey (2015)*

Table 4.3 shows that about 40 percent of SSEs had been in business for just two years, and could be classified as start-ups. About 60 percent however were growing or matured enterprises that were most likely to be experienced in handling loans. They could also be expected to have the experience of knowing or measuring their business financial goals and achievements. It was important for us to know the forms of business organizations that SSE owners operate in the municipality.

Table 4.4 SSEs' Form of Business Organizations

Form of business	Frequency	Percentage (%)
Single proprietorship	66	82.5
Company	10	12.5
Co-operative/Credit Unions	4	5
Total	**80**	**100**

Source: *Field Survey (2015)*

From table 4.4 above, 82.5 percent of business entities are sole proprietorships, followed by company with 12.5 percent, and Co-operatives with 5 percent. This presents a picture that among the legal forms of businesses in Hohoe municipality, SSEs dominate economic activities. These mimics the institutional sector employment statistics for Ghana's private sector, where the informal sector in which SSEs are located, constitute 88.67 percent while the formal private sector has only 5.2 percent (GSS, 2012). We were also interested in knowing the industry classification of SSEs in the municipality to ascertain the sector in which SSEs contribution was most prevalent.

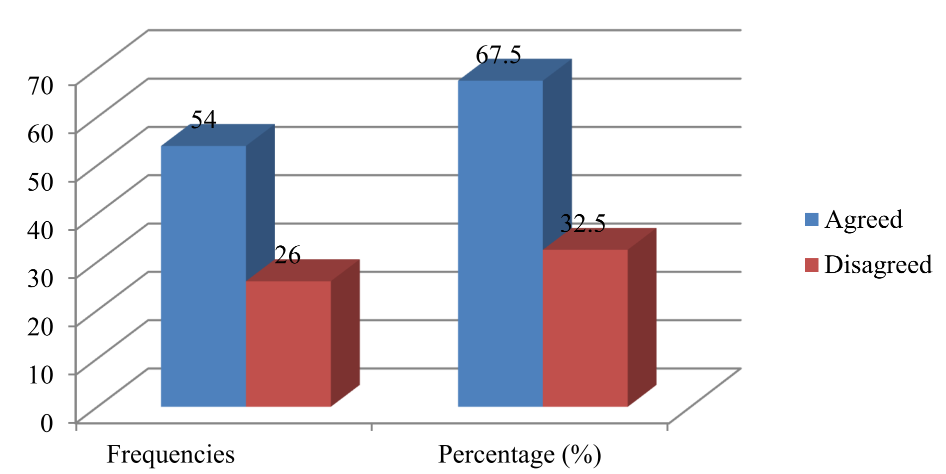
Table 4.5 Industry Distribution of SSEs

Nature of business	Frequency	Percentage (%)
Services	10	12.5
Retailing	48	60
Manufacturing	22	27.5
Total	**80**	**100**

Source: *Field Survey (2015)*

Field responses indicated that, 12.5 percent of SSEs were into Services and 27.5 percent were engaged in the Manufacturing sector. It is also established that the majority 60 percent of SSEs are retailing outfits providing services which create employment opportunities to people in the Hohoe municipality.

Figure 4.1 ROLES OF MFIs IN IMPROVING THE FINANCIAL GROWTH OF SSEs

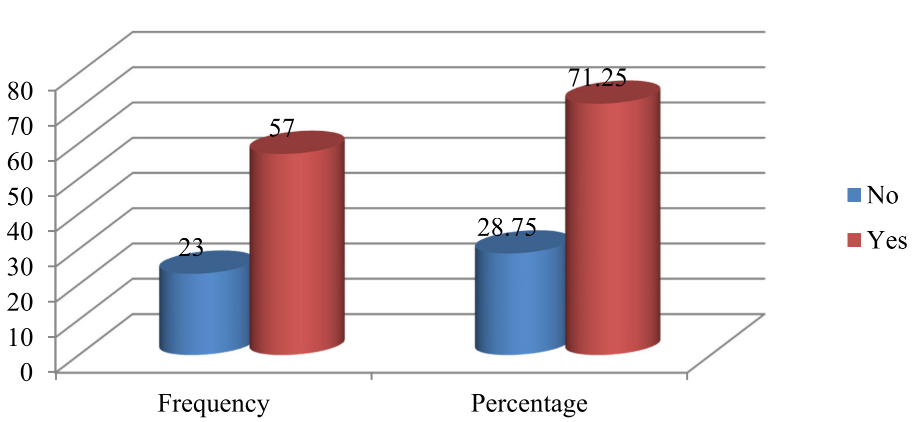


Source: *Field Study, (2015)*

The views of the respondents were sought in different dimensions to know whether MFIs play any role to improve SSEs growth. From figure 4.1 above it is well noted that 54 respondents representing 67.5 percent of the total agree that the roles played by MFIs actually contribute to the financial growth of SSEs. This indicates that the roles such as provision of credit facilities to SSEs actually help in SSE growth. However, 32.5 percent of the respondents also came up with the view that credits from MFIs only help to sustain the business. The findings above are not strange. Many studies in the literature support these findings. Some researchers have found strong relationship between MFIs and SSEs. For example, our findings in the analysis of the first objective of the study revealed significant roles being played by MFIs to improve the growth of SSEs. This conforms to the findings of Anyanwu (2004), who examined the outreach performance of MFIs in Nigeria using the survey. The study discovered positive improvement on the clients of the selected MFIs.

Access to microfinance credit is one of the major problems facing SSEs in Hohoe. The idea of creating MFIs is to provide those who cannot access formal banks' loans an easy access to finance. Figure 4.2 below indicates respondents' experience of easy accessibility to MFIs loans.

Figure 4.2 SSEs EASE OF ACCESSIBILITY TO MFIs' CREDIT

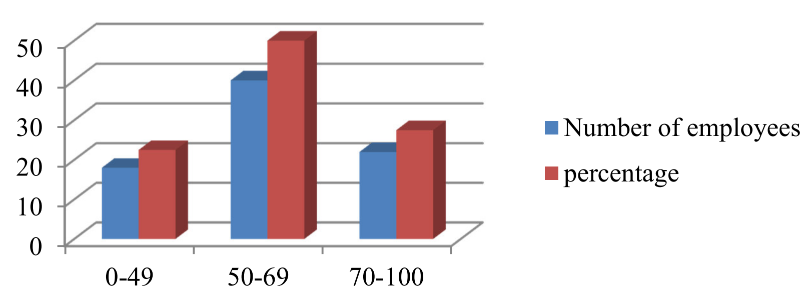


Source: *Field Study, (2015)*

Figure 4.2 above shows SSEs ease of accessibility to microfinance credit. This information was obtained by analyzing the responses of the difficulties or challenges encountered by SSEs in accessing microfinance credit. The results indicate that 23 respondents representing 28.75 percent do not have problems accessing microfinance credit. They claimed that they are able to approach MFIs for finance because the institutions do not request collateral before they issue out loans to them. On the other hand, 54 respondents representing 71.25 percent have problems accessing credit owing to numerous reasons. This seems to defeat the aim of MFIs who set out to maximize scale of outreach.

Different ranges of financial goal achievement were provided for SSE owners to select the range in which they believe microfinance credit helps them to attain. Figure 4.3 shows the number of SSE owners that responded to the different ranges in the questionnaire.

Figure 4.3 CREDIT USAGE AND SSEs LEVEL OF GROWTH



Source: *Field Study, (2015)*

From the 80 respondents in the study, 22 SSE owners representing 27.5 percent claim that they recorded

70-100 percent growth using microfinance credit. Almost half of the respondents (50percent) believe they achieved 50-69 percent growth and 22.5 percent of the respondents said they got 10-49 percent of their target growth.

5.0 Conclusion

The fundamental objective of this study was to assess the effect of Microfinance on SSEs in Hohoe municipality. Simple Random Sampling technique was employed in selecting the 80 SSEs that constituted the sample size for the study. Structured questionnaire was designed for the acquisition of relevant data which was used for analysis. The findings of this study reveal that significant number of the SSEs benefitted from the microfinance loans even though only few of them were able to secure the required amount needed. Interestingly, majority of the SSEs acknowledge positive contributions of microfinance loans towards promoting their market share. We recommend that management of microfinance institutions should incorporate SSE's views or inputs into the formulation or review of their credit management policies. Interest rate charges on loans given to SSE should be relatively lower to entice SSEs access credits and the microfinance institutions may consider embarking on monitoring the SSEs to ensure that the loans are being used for its intended purpose.

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